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C O N F I D E N T I A L SECTION 01 OF 02 JERUSALEM 005056

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NEA FOR FRONT OFFICE; NEA/IPA FOR
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TREASURY FOR SZUBIN/LOEFFLER/NUGENT/HIRSON

E.O. 12958: DECL: 12/28/2016
TAGS: ECON EIND ETRD KWBG IS
SUBJECT: RESTRICTED THROUGHPUT AT KARNI/AL-MINTAR CROSSING
CONTINUES TO ERODE GAZA'S INDUSTRIAL BASE

Classified By: Consul General Jake Walles, Reasons 1.4 (b) and (d).

¶1. (C) Summary: By operating at limited capacity, the Karni/al-Mintar crossing continues to deprive Gaza factories of raw materials and reliable access to markets, according to Gaza industrialists. The Palestinian Federation of Industry estimates that Gaza's industrial sector has suffered more than USD 60 million in losses in 2006. About 80 percent of the textile factories in Gaza are idle and ten percent have established alternative production sites in Egypt or Jordan. Most metal shops have closed as a result of Israeli restrictions on the importation of metal into Gaza and IDF attacks against alleged rocket production centers. Lack of funding for infrastructure projects and shortages of raw materials have stalled construction. Due an insufficient supply of asphalt, some of the roads damaged during recent Israeli military incursions cannot be repaired. End Summary.

¶2. (C) In discussions with Econoffs on December 13 and, via DVC, on December 14, Gaza businessmen described the deterioration of Gaza's industrial base due to severe restrictions on throughput at Karni/al-Mintar crossing and the resultant dearth of raw materials. High transportation costs for inputs and goods that do transit Karni/al-Mintar crossing have rendered many Gaza products uncompetative and Gaza factories unprofitable. Local press December 25 cited a Palestinian Federation of Industries (PFI) report declaring that 20 factories have left Gaza in 2006. PFI Deputy Secretary General Amr Hamdan told Econoff December 27 that 13

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of the 20 factories that have relocated were textile factories each employing an average of 120 workers. The PFI estimates losses in Gaza's industrial sector to be more than USD 60 million in 2006, including crossing closure costs of USD 500,000 a day.

Textiles - Close Out Sale

¶3. (C) Mohammed Abu Shanab, general manager of Geia, a clothing manufacturing company, told Econoffs December 13 that the textile sector in Gaza once employed 45,000 workers but about 80 percent of the factories have closed and 10 percent have relocated to Jordan or Egypt. He said that 90 percent of the textiles produced in Gaza historically were shipped to Israeli companies. In the past, textile factories in Gaza could complete an order for an Israeli company in a day. Now it takes a week-to-ten days. Saleh Ayesh, a member of the Sewing Factories Association (Gaza) added that Palestinian textile firms used to ship "ready" clothing

(pressed and on hangers), but now earn less on such contracts because they have to pile the clothes in boxes suitable for scanners on the Israeli side.

Metal Shops Without Metal

¶4. (C) Emad Hassnat, GM of Hamdi Hassnat and Son's, reported December 13 that Israeli authorities, citing potential dual-use for rocket production, currently prohibit the importation of 80 percent of metal materials previously used in Gaza metal shops. (Note: Managers of a West Bank dairy product factory told visiting Econoffs December 19 that Israeli officials, citing security concerns, had informed them earlier the same day that they could no longer use specially constructed metal frames to transfer their dairy products into Gaza. End note.) Hassnat said that 70 percent of the work places using steel have shut down due to lack of raw materials or damage inflicted by Israeli airstrikes and incursions. He added that his family's company makes electric power line towers, but is no longer able send them through Karni/al-Mintar to be galvanized in Israel. According to Hassnat, because Gaza has no means of galvanizing steel, his company cannot fill orders or bid on new projects.

Glassware Going Nowhere

¶5. (C) PFI Treasurer and Glassware factory owner Abdalrahim Abu Seedo stated December 13 that Karni/al-Mintar crossing closures and limited operations have cost him a business he spent 20 years building. He said that his inability to make deadlines for the past year has obliged long-time European customers of his high quality, hand-blown glassware to turn to other suppliers. His factory once employed 20 people but

now has only two workers who merely maintain the facility.

Road Construction/Repair Stalled

¶6. (C) Osama Kohail, Chairman of the Contractors Union, complained December 14 that the suspension of international aid to the PA had adversely affected a number of infrastructure projects, in some cases leaving contractors with financial obligations that they can no longer fulfill. Shortages of construction materials have also slowed or suspended construction company activities. The current stock of bitumen, a necessary ingredient of asphalt, is sufficient to meet only 2 percent of Gaza's demand, according to Kohail. As a result, repairs to roads damaged by recent IDF incursions and other roadwork projects cannot be completed. Kohail asserted that, in the absence of needed repairs, some roads in Gaza will become impassable during winter rains.

WALLES